IWC COMMUNICATIONS LIMITED
ANNUAL REPORT

AUGUST 31, 1974

Directors and Officers

IWC COMMUNICATIONS LIMITED 81 BARBER GREENE ROAD, DON MILLS, ONTARIO M3C 2A3

Directors

J.T. Eyton
J.W. Hardie
R.M. Ivey, Q.C.
J.J. MacBrien
P.J. Nadler, C.A.
G.I. Rosenfeld
M.M. Sinclair
J.A. Slaight
L.F. Stevens, F.C.A.

Officers

J.A. Slaight, *President*
L. Halpert, C.A., *Vice-President, Finance and Treasurer*
J.T. Eyton, *Secretary*

Auditors

Clarkson, Gordon & Co., Toronto, Ontario.

Solicitors

Tory, Tory, DesLauriers & Binnington, Toronto, Ontario.

Transfer Agents

Guaranty Trust Company of Canada, Toronto, Ontario.

Stock Listing

Toronto Stock Exchange

Operating Subsidiaries

CFGM Broadcasting Limited
Radio CFOX Inc.
Sarnia Broadcasting (1964) Limited
Barrie Cable TV Limited
Orillia Cable TV Limited
Terra Communications Limited

Associated Company

Global Communications Limited

President's Report

During this past fiscal year, your Company completed its transition from a manufacturing to a communications company through the sale of its remaining manufacturing operation, Noram Communications Limited. We are proud to report that these changes, coupled with many other significant improvements, have resulted in net income for the year ended August 31, 1974, of $192,932, compared with a loss in the previous year of $1,973,385. Your Company is now involved in three areas: television, cable and radio.

Television

On March 27, your Company was approached by Global Communications Limited to provide financial assistance for the troubled Global Television Network. Following disclosure that the revenues of Global for the fiscal year ending August 31, 1974, would be substantially lower than projected, Global's chartered banker refused to advance any part of the remaining $3,000,000 otherwise available under Global's existing $6,000,000 term credit or any further amounts under its operating credit. The immediacy of the need for funds and the substantial amounts required made it virtually impossible for Global to secure financing on normal credit terms. Accordingly, your Company approached this opportunity with particular caution in view of the precarious financial position. We proceeded nonetheless, and on March 31, 1974, the Board of Directors of Global accepted a refinancing plan proposed by a group headed by your Company.

Our application to reorganize the Global Television Network was presented to the CRTC in a special session on April 10, 1974, and approved by that Commission on April 11. On April 15, your Company assumed effective management control of the Global Television Network. I and Leslie Halpert, formerly Vice-President, Finance and Secretary-Treasurer of the CTV Television Network, were appointed to the positions of President and Treasurer respectively of Global.

After several weeks of careful examination, it became apparent that the financial situation at Global was far worse than had been anticipated by us, and that it was not in the best interests of your Company to remain involved in Global with the massive debt and operating losses which had accumulated.

After serious consideration, we decided to present the unsecured creditors with a proposal under which they would receive, immediately, 25¢ on the dollar for their claims, or notes for the full amounts of their claims which would be payable in five equal amounts over a period of from 4½ to 9½ years. This proposal was accepted by the creditors on June 7, 1974, and as a result the Global Television Network was relieved of $2,676,477 of liabilities (net of related expenses). In addition approximately $2,300,000 was saved through the repudiation, prior to the proposal, of onerous long term film contracts. Global's complete annual report for the year ended August 31, 1974, is appended to this report.

We are now convinced that Global can become a profitable broadcasting enterprise based on the substantial improvements in sales and reductions in operating costs achieved since April 15, 1974, when your Company assumed management of Global. Furthermore the IWC involvement in Global has moved your Company to the front ranks of Canadian communications companies.

Cable

Our cable division is comprised of systems in Barrie (Barrie Cable TV Limited), Orillia (Orillia Cable TV Limited), and Mississauga (Terra Communications Limited). All cable operations had increases in revenue over the previous year – over 13% in Barrie and Orillia and over 60% in Terra. Barrie and Orillia continued to register gains in net income. Terra's operating losses have been reduced substantially and that company generated a positive cash flow in the fiscal year ended August 31, 1974. We anticipate improvements in all three cable companies in the next fiscal year.

During the year both Barrie and Orillia applied to the CRTC for rate increases. We are optimistic that

the increases will be approved in the near future. Terra applied for and received permission from the CRTC to increase its rates in stages over a two-year period.

Radio

Our radio division is comprised of CFGM (Richmond Hill/Toronto), CFOX (Montreal), and CHOK(Sarnia). CFGM continues to be the major contributor to corporate profits, while CHOK has increased revenue and profits, and CFOX recently has undergone an impressive turnaround.

National sales on our three stations, booked into calendar 1975 as of December 31, 1974, are approximately 40% ahead of the same date one year ago.

Local sales continue strong in all three markets with the most significant improvement at CFOX where first quarter local revenue was up 79%.

Our staffs and board of directors

I wish to express my sincere appreciation to the fine staffs at all company locations. They have been loyal and dedicated, and I consider them the most significant single factor in the impressive growth experienced by your Company since the merger of Slaight Broadcasting Limited and IWC Communications Limited in July 1973. The cooperation and counsel of our Board of Directors has also been of inestimable value during this period.

Outlook

I earlier referred to the dramatic one-year improvement in operating results from a loss of $1,973,385 to a net income of $192,932. We anticipate that the full impact of our internal reorganizations will be recorded in our current fiscal year. We forecast substantial gains in net income.

President

January 27, 1975

Consolidated Balance Sheets

IWC COMMUNICATIONS LIMITED (Incorporated under the laws of Ontario)

	August 31		
ASSETS	Pro-forma 1974 (note 3)	1974	1973
Current			
Cash and bank deposit receipts	$ 161,103	$ 262,288	$ 818,276
Accounts receivable	683,192	683,192	740,535
Mortgage receivable (note 4)	125,277	125,277	
Deposits, prepaid expenses and other	102,293	102,293	71,297
	1,071,865	1,173,050	1,630,108
Amount due on sale of (1973 – investment in) **Noram Communications Limited** (note 5)	200,000	200,000	200,000
Investment in debentures of Global Communications Limited (note 2)	3,000,000	1,000,000	
Fixed, at cost (note 6)	6,031,991	6,031,991	5,331,597
Less accumulated depreciation	2,283,236	2,283,236	1,799,320
	3,748,755	3,748,755	3,532,277
Other			
Excess of purchase price of shares and assets of consolidated subsidiaries over estimated fair value of underlying net tangible assets at dates of acquisition (note 1 (a))	4,692,461	4,692,461	4,692,461
Mortgage receivable (note 4)			125,277
Deferred development costs (note 1 (d))	61,632	61,632	100,572
Sundry other assets	40,652	40,652	76,528
	4,794,745	4,794,745	4,994,838
	$12,815,365	$10,916,550	$10,357,223

The accompanying notes are an integral part of these financial statements.

LIABILITIES	Pro-forma 1974 (note 3)	August 31 1974	1973
Current			
Operating bank indebtedness (note 7)	$ 138,000	$ 138,000	$ 370,762
Accounts payable and accrued liabilities	427,285	401,601	383,482
Income and other taxes payable	150,268	163,268	153,201
Deferred subscription revenue	192,754	192,754	149,959
Principal amounts of long-term liabilities due within one year (note 7)	553,381	553,381	538,914
	1,461,688	1,449,004	1,596,318
Long-term liabilities (note 7)	1,240,169	1,240,169	1,793,100
Interim advances from shareholders (note 3(iii))		1,000,000	
Deferred income taxes	164,390	164,390	101,800
SHAREHOLDERS' EQUITY			
Capital (note 8)			
Authorized:			
10,000,000 shares without par value			
Issued:			
Balance sheet –			
4,831,358 shares (1973 – 4,828,358 shares)		4,889,637	4,885,587
Pro-forma balance sheet – 7,247,037 shares	7,788,452		
Retained earnings	2,160,666	2,173,350	1,980,418
	9,949,118	7,062,987	6,866,005
	$12,815,365	$10,916,550	$10,357,223

On behalf of the Board:

Allan Slaight, Director

Gurston I. Rosenfeld, Director

Consolidated Statement of Operations

IWC COMMUNICATIONS LIMITED

	Year ended August 31 1974	Year ended August 31 1973	Five months ended August 31, 1973
		(unaudited)	(note 1 (b))
Revenue	$ 4,423,975	$ 4,043,975	$ 1,845,445
Expenses			
Operating expenses exclusive of items noted below	3,025,859	3,034,280	1,320,619
Depreciation (note 1 (c))	504,253	433,806	193,685
Amortization of deferred development costs (note 1 (d))	38,940	38,676	15,994
Interest expense (note 7)	235,097	246,445	117,714
Interest income	(72,880)	(128,758)	(49,833)
	3,731,269	3,624,449	1,598,179
Income before the undernoted	692,706	419,526	247,266
Income taxes	394,600	389,557	215,746
	298,106	29,969	31,520
Deduct pre-control earnings of subsidiary corporations included above (note 1 (a))		28,042	
Income from continuing operations	298,106	1,927	31,520
Loss from discontinued operations (note 1 (a))		(550,401)	(137,334)
Income (loss) before extraordinary items	298,106	(548,474)	(105,814)
Extraordinary items			
Costs relating to denied licence applications, less applicable income tax reductions of $6,000 (note 9)	133,174		
Loss on disposal of investments in former subsidiaries		1,147,694	585,176
Reorganization and other costs relating to amalgamation		277,217	277,217
Income tax reductions resulting from carry-forward of prior year's loss	(28,000)		
	105,174	1,424,911	862,393
Net income (loss) for the period	$ 192,932	$ (1,973,385)	$ (968,207)

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Retained Earnings

IWC COMMUNICATIONS LIMITED

	Year ended August 31, 1974	Five months ended August 31, 1973
		(note 1 (b))
Retained earnings at beginning of period	$ 1,980,418	$ 2,989,959
Net income (loss) for the period	192,932	(968,207)
Share issue costs of a predecessor corporation		(41,334)
Retained earnings at end of period	$ 2,173,350	$ 1,980,418

The accompanying notes are an integral part of these financial statements.

Auditors' Report

To the Shareholders of IWC Communications Limited :

We have examined the consolidated balance sheet and pro-forma consolidated balance sheet of IWC Communications Limited ("IWC") and its subsidiaries as at August 31, 1974 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As explained in notes 2 and 3, IWC has a substantial investment in Global Communications Limited ("Global"), a commitment for further investment therein, and a contingent liability with respect to Global's bank debt. IWC's investment was undertaken as part of a Global refinancing plan. To the time of refinancing, Global had incurred substantial losses and is expected to incur additional losses before a profitable level of operations is attained. The future of Global will depend on its ability to attain such profitable operations and to generate sufficient cash flow to meet its obligations. The ultimate recovery of IWC's present and future investment in Global and the elimination of the contingent liability relating to Global's bank debt will depend on the satisfactory resolution of such matters.

In our opinion, subject to the effects, if any, on the consolidated financial statements of IWC of the ultimate resolution of the matters discussed in the preceding paragraph,

a) The accompanying consolidated balance sheet and the consolidated statements of operations, retained earnings and changes in financial position present fairly the financial position of the corporations as at August 31, 1974 and the results of their operations and changes in their financial position for the year then ended ;

b) The accompanying pro-forma consolidated balance sheet presents fairly the financial position of the corporations as at August 31, 1974, after giving effect to the transactions described in note 3 ;

all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Toronto, Canada,
January 10, 1975.

CLARKSON, GORDON & CO.
Chartered Accountants

Consolidated Statement of Changes in Financial Position

IWC COMMUNICATIONS LIMITED

	Year ended August 31, 1974	Five months ended August 31, 1973
		(note 1 (b))
Source of funds		
Income from continuing operations	$ 298,106	$ 31,520
Charges not affecting working capital –		
Depreciation	504,253	193,685
Amortization	38,940	15,994
Deferred income taxes	62,590	10,000
Funds from continuing operations	903,889	251,199
Interim advances from shareholders (note 3 (iii))	1,000,000	
Less related investment in debentures of Global Communications Limited (note 2)	1,000,000	
Income tax reductions resulting from carry-forward of prior year's loss	28,000	
Current maturity of mortgage receivable (note 4)	125,277	
Proceeds from issue of capital stock (note 8)	4,050	
Total funds provided	1,061,216	251,199
Application of funds		
Costs relating to denied licence applications, less applicable income tax reductions of $6,000 (note 9)	133,174	
Operating losses of former subsidiary, Noram Communications Limited, and working capital loss on disposal of that corporation (note 5)		374,739
Currently payable portion of reorganization and other costs related to amalgamation		150,780
Additions to fixed assets	720,731	232,850
Reduction of long-term liabilities	552,931	873,115
Increase (decrease) in other assets, net	(35,876)	21,294
Total funds applied	1,370,960	1,652,778
Decrease in working capital	(309,744)	(1,401,579)
Working capital at beginning of period	33,790	1,435,369
Working capital (deficiency) at end of period	$ (275,954)	$ 33,790
Working capital (deficiency) represented by:		
Current assets	$ 1,173,050	$ 1,630,108
Less current liabilities	1,449,004	1,596,318
	$ (275,954)	$ 33,790

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

August 31, 1974

1. Summary of accounting policies

The following summary of accounting policies of IWC Communications Limited ("IWC") and its consolidated subsidiaries is set forth to facilitate the understanding of data presented in these financial statements:

(a) Principles of consolidation –

IWC results from the amalgamation on July 1, 1973 of the predecessor corporations, IWC Communications Limited and Slaight Broadcasting Limited. The amalgamation has been accounted for as a pooling of interests. On this basis of accounting:

(i) Assets, liabilities and shareholders' equity of the predecessor corporations at the date of amalgamation were carried forward at the values on the books of such predecessor corporations.

(ii) The results of operations of the predecessor corporations prior to amalgamation have been retroactively combined in the comparative statements of operations.

The consolidated financial statements include the accounts of the amalgamated corporation and of the following subsidiaries:

Wholly-owned subsidiaries:
288265 Ontario Limited
CFGM Broadcasting Limited
Sarnia Broadcasting (1964) Limited
Terra Communications Limited
Barrie Cable TV Limited
Orillia Cable TV Limited
Suburban York Sales Limited
80%-owned subsidiary:
Radio CFOX Inc.

The comparative consolidated balance sheet at August 31, 1973 does not include the assets and liabilities of the then wholly-owned subsidiary, Noram Communications Limited ("Noram"), as Noram was in the process of being disposed of at that date (see note 5 page 11). Operating results of that former subsidiary to August 31, 1973, and of another former subsidiary to December 31, 1972 (the date as of which control of such subsidiary was sold), are included as a single amount ("loss from discontinued operations") in the consolidated statement of operations for the five and twelve month periods ended August 31, 1973. The pre-control interest (50%) of other parties in the earnings of the Barrie and Orillia subsidiaries, which interest was purchased in the fiscal year ended March 31, 1973, is also shown separately as a deduction from income in the comparative consolidated statement of operations for the year ended August 31, 1973.

The accounts of the subsidiaries are included in the consolidated statements on the purchase basis of accounting with the excess of the purchase price of the shares and assets of such subsidiaries over the value assigned to their net tangible assets at dates of acquisition (also considered to be the estimated fair value of such net tangible assets at such dates) included with other assets in the consolidated balance sheet. The corporation's policy is not to amortize this excess, which all relates to subsidiaries purchased prior to 1974, so long as there is no evidence of impairment in value of such subsidiaries.

(b) Comparative statements –

The audited comparative consolidated financial statements are in respect of the five months ended August 31, 1973, the first reporting period of the amalgamated corporation. The consolidated statement of operations also includes for comparative purposes unaudited figures for the year ended August 31, 1973.

(c) Depreciation –

Depreciation is provided by the corporations at rates and on bases designed to amortize the cost of fixed assets over their estimated useful lives, as follows:

	Rate	Basis
Buildings	2½%-10%	Straight-line
CATV and radio plant	10%-15%	Straight-line
Equipment, vehicles and other	10%	Straight-line, or
	20%-30%	Diminishing balance

(d) Deferred development costs –

Costs relating to the initial development of the original cable system of a subsidiary were deferred and are being amortized against income over a five-year period. Similar costs relating to the expansion of the cable system in the same geographic area are being charged against operations as incurred.

(e) Income taxes –

Deferred income taxes are provided on timing differences between accounting income and income for tax purposes. These differences arise because certain amounts claimed for tax purposes (mainly depreciation) are in excess of related amounts written in the accounts.

Potential future tax savings resulting from the availability for tax purposes in certain of the corporations of deductions (mainly capital cost allowances) that represent amounts already charged against income (referred to further in note 11) are not being recognized in the accounts until realized. Such future tax savings as may result from the deduction of such amounts, will be credited to income as extraordinary items in the years realized.

2. Acquisition of interest in Global Communications Limited

On April 11, 1974 the Canadian Radio-Television Commission ("CRTC") approved the application by Global

Communications Limited ("Global") for the transfer of control of Global to a group (the "Group"), the two principal members of which are IWC and Global Ventures Western Ltd. ("Ventures"). Under the terms of various agreements, as amended, and as approved by the parties involved, the Group's interest and undertaking with respect to Global is as follows:

(i) IWC and Ventures (as well as, in an individual capacity, two of Ventures' principals as to $750,000 each) each guaranteed up to $1,500,000 of additional bank debt (total $3,000,000) to be incurred by Global.

(ii) IWC has full management control of Global under a management contract anticipated to run to January 15, 1983.

(iii) The Group has voting control of Global through a voting trust agreement. The Group also has options to 1983 on 626,000 of the currently outstanding 665,000 common shares of Global and on a further 14,000 treasury shares, at prices ranging from $0.50 to $7.00 per share, with a total exercise cost of $1,870,000. In addition, public debenture holders currently holding 225,000 voting preferred shares of Global to be cancelled upon payment of the outstanding debentures, will also hold purchase warrants exchangeable into 225,000 common shares for $7.00 cash per share. If all such options and warrants are exercised the Group will have 70.8% of the then outstanding common shares.

(iv) The Group has purchased a total of $5,900,000 of interest debentures of Global to January 10, 1975 and is committed to purchase an additional $3,000,000 of such debentures as and when required by Global and the chartered banker of Global in order to fund its operations. These interest debentures have the following attributes:
- due January 15, 1983 but permitting prepayment (subject to prior repayment of bank indebtedness) in whole or in part at any time prior without premium;
- secured by a floating charge on all the assets of Global, subject to prior claims and security held by Global's chartered banker and claims of ordinary trade creditors (and of certain other creditors designated as such), of Global for liabilities incurred from May 22, 1974 until May 22, 1977, and ranking pari passu with approximately $1.3 million principal amount of existing Global 10% subordinated debentures;
- bearing interest at the prime commercial rate of Global's chartered banker plus 1.2%.

(v) The Group has purchased a total of $100,000 of income debentures of Global to January 10, 1975 with the following attributes:
- due January 15, 1998;
- secured by a floating charge on all the assets of Global, subject to prior claims and security held by Global's chartered banker, to floating charges securing the interest debentures and approximately $1.3 million of existing Global 10% subordinated debentures, and to claims of ordinary trade creditors (and of certain other creditors designated as such) of Global for liabilities incurred from May 22, 1974 until May 22, 1977;
- bearing interest payable out of tax paid earnings of Global at a rate equal to percentages declining one percentage point per annum from 30% in 1975 to 20% in 1985 and thereafter, of the pretax earnings of Global for each immediately preceding fiscal period.

(vi) The CRTC required as a condition of its approval of the Global application that IWC divest itself of its interest in Barrie Cable TV Limited, Orillia Cable TV Limited and Terra Communications Limited, on the understanding that this condition would not be asserted until an appropriate time in the future.

The combined operating results of these cable subsidiaries included in the accompanying consolidated statement of operations are as follows:

	Year ended August 31 1974	Year ended August 31 1973 (unaudited)	Five months ended August 31, 1973
Net income (loss)	$ 26,431	$(104,663)	$(108,470)
Depreciation charges in period	392,376	325,926	146,549

The commitment to purchase interest debentures and income debentures referred to in paragraphs (iv) and (v) respectively, was and is shared equally between IWC and Ventures, but subject to the option held by a third party exercisable to August 31, 1975 to purchase up to an additional $1,000,000 of interest debentures from Global bearing the same terms and to purchase up to $10,000 of the income debentures from IWC and Ventures pro-rata, for cash at their respective par values. If this option is fully exercised and the commitment to purchase further debentures is met in entirety by the present members of the Group, the third party will contemporaneously acquire and retain a 10% interest in the options on shares of Global referred to in paragraph (iii) contributed equally by IWC and Ventures so that the respective holdings would be IWC – 45%, Ventures – 45% and such third party – 10%. If such third party does not exercise the option referred to above, his 10% interest in the options on shares of Global and in the income debentures will be reduced and/or forfeited pro-rata in favour of IWC and Ventures.

All members of the Group have been granted mutual rights of first refusal (proportionate to their respective interests in the Global options) in respect of any sale of Global securities by any member of the Group. In addition, either of IWC or Ventures (the "first party") may require the other (including the third party) to elect to sell all the Global securities held by them at the price specified by the first party or to purchase all of the Global securities held by the first party at the same price.

As at August 31, 1974 IWC had acquired $1,000,000 of interest debentures of Global, and, during the period subsequent thereto to January 10, 1975 has acquired a further $1,950,000 of interest debentures and $50,000 of income debentures (as referred to further in note 3), as required under the terms of its commitments as a member of the Group.

A copy of the audited consolidated financial statements of Global as at August 31, 1974, reported on by the auditors of that corporation, is appended hereto. These statements disclose accumulated losses of Global of $15,684,553, to August 31, 1974 and an excess of liabilities over assets at that date of $12,432,297. IWC's investment was undertaken as part of a Global refinancing plan. To the time of refinancing, Global had incurred substantial losses and is expected to incur additional losses before a profitable level of operations is attained.

3. Pro-forma consolidated balance sheet

The pro-forma consolidated balance sheet as at August 31, 1974 gives effect to the following:

(i) The acquisition subsequent to August 31, 1974 of a further $1,950,000 of Global interest debentures and of $50,000 of Global income debentures.

As described in note 2, the Group is committed to purchase a total of $9,000,000 of Global debentures. Under the arrangements with Global and its chartered banker (the "Bank"), the Group was required to purchase a minimum of $6,000,000 of such debentures at defined times in 1974, and the balance as and when required by Global and the Bank. The purchase to date of $3,000,000 of debentures by IWC has fulfilled the corporation's current pro-rata purchase requirement. It is currently anticipated that no part of the balance of IWC's commitment of $1,500,000 will be required until late in calendar 1975 in order to finance Global's operations and financing arrangements have not yet been made with respect thereto.

(ii) The issue in September, 1974, in connection with the purchase of debentures of Global as referred to in paragraph (i) above, of 2,415,679 shares of IWC for cash of $2,898,815 under the terms of a rights offering to the existing shareholders of IWC (on the basis of the issue of 1 share at $1.20 per share for each two shares then held).

In connection with the rights offering, certain of the major shareholders of the corporation undertook to purchase at the same price the balance of shares not taken up by other shareholders under the rights offering, so that the offering was fully subscribed.

(iii) Application of the proceeds of the rights offering:

- as to $1,000,000 to repay demand loans made on July 30, 1974 by certain shareholders of IWC to provide interim financing for IWC with respect to its initial purchase of Global debentures. Such loans bore interest during their term at 1.2% above the highest of the prime commercial lending rate then quoted by three Canadian chartered banks;
- as to the balance, to purchase, with $101,185 from IWC's available cash, the additional $2,000,000 of Global debentures.

(iv) The provision in accounts payable and accrued liabilities for the costs ($25,684) of the rights offering, which amount, net of related income tax reductions of $13,000, has been charged against pro-forma consolidated retained earnings.

4. Mortgage receivable

The mortgage receivable bore interest at 7½% per annum and was repaid subsequent to August 31, 1974.

5. Amount due on sale of Noram Communications Limited

During February, 1974 the sale of the former subsidiary, Noram Communications Limited, was completed. The consideration received on the sale was a debenture of the purchaser for $350,000 payable over seven years commencing in January, 1975, bearing interest from November 1, 1973 calculated at 1% above the bank prime rate. As a condition of sale, IWC guaranteed the bank loans of the purchaser for an anticipated period of two years from the date of sale, to an amount not exceeding $500,000. IWC hypothecated the $350,000 debenture to the purchaser's bank against such guarantee and has subordinated any amounts owing by Noram to IWC to the interests of the bank. The aforementioned debenture is carried in the consolidated balance sheet at $200,000, thereby reflecting a provision of $150,000 in respect of warranties given and liabilities assumed on the sale of Noram.

6. Fixed assets

The cost of fixed assets as set out in the accompanying consolidated balance sheets is comprised as follows:

	August 31 1974	August 31 1973
Land	$ 408,843	$ 421,568
Buildings	132,020	57,243
CATV and radio plant	5,006,554	4,471,944
Equipment, vehicles and other	484,574	380,842
	$6,031,991	$5,331,597

7. Long-term liabilities

Details of long-term liabilities are as follows:

	August 31 1974	August 31 1973
Parent corporation		
Term bank loan, interest at 1½% above the prime rate, payable $32,500 quarterly	$ 487,500	$ 617,500
6¾% promissory note		60,000
Provision for settlement costs under employment contracts, payable over five years commencing in 1974	107,000	172,000
6¾% promissory note	3,727	7,454
	598,227	856,954
Subsidiary corporations		
Term bank loan, interest at 1½% above the prime rate, payable $200,000 in each of 1975 and 1976 with balance payable in 1977	700,000	800,000
Term bank loan, interest at 1% above the prime rate, payable $50,000 annually	150,000	200,000
Promissory notes at 1% above the prime rate, payable in monthly instalments of $7,040	190,125	274,625
7½% first mortgage payable $25,000 annually and secured by land owned by a subsidiary	62,500	87,500
8% first mortgage secured by land owned by a subsidiary, payable in annual instalments of $10,000 and maturing August 14, 1976	47,500	57,500
Other (mainly mortgages bearing interest at 7% to 10%, due by 1978)	45,198	55,435
	1,195,323	1,475,060
Total long-term liabilities	1,793,550	2,332,014
Less principal amounts due within one year included with current liabilities	553,381	538,914
	$1,240,169	$1,793,100

The parent corporation's term bank loan and certain related operating bank loans are secured by the assignment of accounts receivable of the corporation and of certain subsidiaries, by guarantees of such subsidiaries, and by hypothecation of a debenture and shares of one of the subsidiaries.

The payments required in each of the next five years to repay long-term liabilities are as follows (for years ending August 31):

1975 — $553,381
1976 — $562,769
1977 — $559,544
1978 — $117,856
1979 — Nil

Interest on long-term liabilities was as follows during the periods noted:

	Year ended August 31 1974	Year ended August 31 1973 (unaudited)	Five months ended August 31, 1973
Interest on long-term liabilities	$212,223	$229,550	$143,148
Includes amounts:			
Capitalized (financing costs of fixed asset construction)		22,005	
Reflected as extraordinary item (with reorganization and other costs relating to amalgamation)		41,106	41,106

8. Share capital

(a) Restrictions on share transfers –

The board of directors of IWC may refuse to permit the registration of a transfer of any shares in the capital of the corporation that would, in the opinion of the directors, adversely affect the status of the corporation, or any subsidiary thereof, as a corporation eligible to obtain, maintain, amend or renew a licence to carry on a "Broadcasting Undertaking" (as that term is defined in the Broadcasting Act (Canada)).

(b) Share options –

A total of 31,600 shares of the corporation are reserved under options granted to employees and officers. Options for 25,600 shares may be exercised currently and expire over varying periods to 1984; the remaining options become exercisable by 1977 and expire after ten years. Of the options outstanding, options on 18,000 shares are exercisable to 1978 at $3.27 per share and the balance at $2.47 to $2.59 per share.

During the year ended August 31, 1974 a total of 3,000 shares were issued for cash of $4,050 on the exercise of options, and options on 24,400 shares expired.

(c) Warrants –

The minority shareholders of Radio CFOX Inc. have the right to exchange their shares of CFOX for warrants to purchase 43,000 shares of IWC for a period of five years from July, 1973 at $2.50 per share.

9. Licence applications

The application to the Canadian Radio-Television Commission (the "CRTC") to permit the corporation to acquire 894,802 common shares (approximately 52%) of Bushnell Communications Limited from Western Broadcast Holdings Limited for a total consideration of $12,079,827 was denied by the CRTC on March 26, 1974. Costs of $97,227 in connection with this application, including a $50,000 deposit forfeited under the related purchase agreement, together with costs of $35,947 relating to certain cable applications, also denied by the CRTC, are included net of applicable tax reductions with extraordinary items in the consolidated statement of operations.

10. Income (loss) per share

The income (loss) per share based on the weighted monthly average number of shares outstanding during the respective periods covered by these financial statements was as follows:

	Year ended August 31 1974	Year ended August 31 1973* (unaudited)	Five months ended August 31, 1973*
Continuing operations	6¢	–¢	1¢
Loss from discontinued operations	–	(11)	(3)
Income (loss) before extraordinary items	6	(11)	(2)
Extraordinary items	(2)	(30)	(18)
Net income (loss) for the period	4¢	(41)¢	(20)¢

*The number of shares was adjusted to give retroactive effect to the shares issued on amalgamation (note 1 (a)).

11. Income taxes

One of the consolidated subsidiaries has accumulated losses of approximately $75,000 at August 31, 1974 which are available to be carried forward for tax purposes to be applied against such income as may be earned by it in years up to and including 1978.

In addition certain of the corporations have, as a result of operating losses, accumulated balances (mainly capital cost allowances) totalling $575,000 at August 31, 1974 available to be claimed for tax purposes. These amounts represent amounts already charged against income in the accounts and are available to reduce taxable income of future years.

Reference is made to note 1(e) for the accounting treatment followed with respect to such amounts.

12. Commitments

(a) Global Communications Limited –

Reference is made to notes 2 and 3 concerning the commitments of the corporation made in connection with the acquisition of its interest in Global.

(b) Lease obligations –

Minimum current lease commitments for premises occupied by the corporation and its subsidiaries aggregate $80,000 annually under various leases with terms to 1982. Leases and agreements for rental of cable distribution facilities currently aggregate approximately $60,000 per annum.

13. Contingent liabilities

Reference is made to note 5 concerning the contingent liability of the corporation under a guarantee of the bank loan of a former subsidiary, and to notes 2 and 3 concerning guarantees and other contingent liabilities of the corporation in connection with its acquisition of its interest in Global Communications Limited.

14. Statutory information

Remuneration of directors and officers for the year ended August 31, 1974 amounted to $299,053.

GLOBAL COMMUNICATIONS LIMITED

ANNUAL REPORT

AUGUST 31, 1974

Directors and Officers

GLOBAL COMMUNICATIONS LIMITED 81 BARBER GREENE ROAD, DON MILLS, ONTARIO M3C 2A3

Directors

I.H. Asper
L.E. Barlow
*S. Epstein
*J.T. Eyton
L. Halpert, C.A.
J.J. MacBrien
*P. Morton
*G.I. Rosenfeld
*J.A. Slaight
L.F. Stevens, F.C.A.
A.C. Thorsteinson

Officers

J.A. Slaight, *President*
P. Morton, *Vice-President*
W.R. Cunningham, *Vice-President, News*
L. Halpert, C.A., *Treasurer*
J.S. Elder, *Secretary*

Auditors

Touche Ross & Co., Toronto, Ontario.

Solicitors

Fraser & Beatty, Toronto, Ontario.

Transfer Agents

Guaranty Trust Company of Canada, Toronto, Ontario.

*Members of the Executive Committee

President's Report

Background

Your Company has now completed a fiscal year in which major reorganizations were required in order to ensure its survival.

While shareholders are no doubt aware of the financial difficulties experienced by Global during the first few months following its on-air date of January 6, 1974, some background may be useful in explaining the refinancing of the Company.

During the month of March 1974, following disclosure that the revenues of Global for the fiscal year ended August 31, 1974 would be substantially lower than projected, Global's chartered banker refused to advance any part of the remaining $3,000,000 otherwise available under Global's existing $6,000,000 term credit or any further amounts under its operating credit. The immediacy of the need for funds and the substantial amounts required made it virtually impossible for Global to secure financing on normal credit terms, and on March 31, 1974 the Board of Directors of Global accepted a refinancing plan proposed by a group, comprising IWC Communications Limited, Seymour Epstein and others to be added with the approval of the Canadian Radio-Television Commission ("CRTC"). Prior to the hearing before the CRTC on April 10, 1974, Global Ventures Western Ltd., a Winnipeg-based company, became a member of the group.

CRTC approval for the change of ownership in favour of the group was received on April 11, 1974 and on April 15 the new group assumed control of the Global Television Network. I and Leslie Halpert, formerly Vice-President, Finance and Secretary-Treasurer of the CTV Television Network, were appointed to the positions of President and Treasurer respectively.

After a careful examination of the financial situation at Global as it confronted the new management, it was our reluctant decision to present the unsecured creditors with a proposal under which they would receive, immediately, 25¢ on the dollar for their claims, or notes for the full amount of their claims which would be payable in five equal amounts over a period from 4½ to 9½ years. This proposal was accepted by the creditors on June 7, 1974 and as a result your Company was relieved of $2,676,477 of liabilities (net of related expenses). In addition approximately $2,300,000 was saved through the repudiation, prior to the proposal, of onerous long term film contracts. With the acceptance of this creditors' proposal and extensive reorganization of our existing capitalization, we are now confident that Global can become a viable financial entity.

IWC Communications Limited and Global Ventures Western Ltd. have injected to date $6,000,000 of new funds into Global, in addition to guaranteeing bank loans of the Company in the amount of $3,000,000 so as to make available the remaining $3,000,000 of term bank credit. The enclosed pro-forma financial statements reflect the full amount of financing available as part of the reorganization and show a working capital position of Global as at August 31, 1974 of $7,611,414. The notes to the financial statements outline the new financing arrangements in considerable detail.

The past year

The loss for the year ended August 31, 1974, before extraordinary items, was $15,805,903. Expenses totalled $18,722,730, of which programming, broadcasting and maintenance costs comprised $13,781,522. In addition, included in the programming, broadcasting and maintenance expenditures is a special writedown of $2,901,444 against contracts for film packages which existed at the date your new management took control. This writedown was necessary to bring the film rights to a realistic market level.

The current year

Operations to date are encouraging.

The group had originally estimated air time sales for the year ending August 31, 1975 to be $8,000,000. We are now confident that actual sales will exceed this estimate. This compares to air time sales of $2,459,983 for the eight months ended August 31,

1974. Furthermore, our cost controls have been effective. Monthly costs in fiscal 1975 are well below the monthly rate to April 15, 1974. Operating expenses before interest and depreciation have been reduced by approximately one-half.

As this report is written, in January, 1975, the Company has $1,825,000 in deposit receipts, some $1,600,000 in unused bank credit and $3,000,000 in unused debenture commitments from the group. In addition, the Company may receive up to a further $1,000,000 on account of the sale of debentures optioned to Seymour Epstein until August 31, 1975.

Audience survey

The annual Fall television survey conducted by the BBM Bureau of Measurement was released in late December. Your Company registered the largest audience of any Global show in our brief history with "Good Times" which was viewed by 555,400 persons. This compares to our previous high in March of 363,800 for the Thursday night movie. An increase of 65%.

Global's News Department has shown impressive growth. The 6:00-6:30 p.m. News has increased 85% since March with the male audience up 92%. The News Hour at 10:00 p.m. grew 25% from the 10:30 p.m. News in the March survey. We are unable to draw too many other direct comparisons because of the radically altered program schedule we launched on September 2. However, we are particularly proud of our coverage of WHA hockey with a male audience for the Tuesday broadcast in the recent survey nearly tripled from the Sunday male audience in the March BBM.

We were somewhat disappointed in the rating figures of certain prime time programs in the Fall survey but it must be borne in mind that Global faced abnormal competition during this particular survey: CHCH Hamilton scheduled "The Godfather"; CFTO Toronto broadcast the "Miss Canada Pageant" which normally tops the Canadian ratings; WBEN Buffalo scheduled the one-hour special of Rhoda's wedding; etc. These and other "specials" distorted normal viewing patterns.

Global made important gains in the periods prior to and following our 6:00 p.m. News. And, at 11:00 p.m. our Movie audience grew 230% from the March survey when the Global-produced "Everything Goes" program was scheduled at that time.

Your management considers this a remarkable achievement when we take into consideration the problems created by the essential creditors proposal in the spring of 1974. In particular, Global was unable to buy many of the better programs because of the doubt and confusion created at that time. The schedule we finally released, for this reason, was not nearly as competitive as the "second season" schedule which became operative on January 27, 1975.

We anticipate that our new schedule, which will be in effect well before the next BBM survey beginning February 24, will produce higher audience levels than ever before for the Global Television Network.

Although the economic climate for 1975 remains hard to assess in terms of advertising dollars, the President of the Television Bureau of Canada, Mr. Len Moore, recently stated that the television medium should experience a national advertising revenue increase of from 12% to 15% in 1975 over the 1974 estimate of approximately $200,000,000.

Independent stations

Certain of our Winnipeg associates in Global Television were recently granted the new independent television license for the City of Winnipeg. This station should go on the air in September, 1975 and will represent the beginning of a strong alliance with certain independent stations in Western Canada. Certainly, some of the costs of Canadian programs by Global may logically be shared by the new station in Winnipeg and other similar independent television stations in Western Canada at a later date. Applications for a new independent station for Vancouver were filed with the CRTC by January 20, 1975 and a hearing is expected this spring.

Additional coverage

On November 14, 1974 the CRTC announced the successful applicant for cable television licenses in Sudbury and Timmins. This company had requested their new cable service carry Global Television as well as Channel 11, Hamilton, and others. We consider it significant that the CRTC approved the request of the successful licensee to present the Global signal but denied the proposal to also carry CHCH-TV in Hamilton. This means, in effect, that Global will be carried on cable in Northern Ontario in the markets of Sudbury, Timmins and North Bay. This will add additional population of approximately 250,000 to Global's current coverage.

Possible tax change

On January 23, 1975 Secretary of State Hugh Faulkner announced that the federal government plans to amend the Income Tax Act to deter Canadian advertisers from purchasing commercial time on U.S. border television stations intended for Canadian audiences. More than $20,000,000 annually is spent on U.S. border T.V. stations from Canada, and more than half of this amount directly affects the Global service area. Repatriation of some of these dollars would prove beneficial to Global at this time.

New senior executive

We are proud to announce the recent appointment of Wendell Wilks as Manager of Broadcast Operations. Mr. Wilks came to Global from his position as General Manager of the new independent television station in Edmonton, CITV. He was responsible for programming and operating that new enterprise which went on the air in September, 1974. It became profitable in its second month on the air. Mr. Wilks, among other duties, will be responsible for the development of a Global production company which will engage in the production of commercials and television programs. The CRTC recently announced its intent to bring in legislation to ultimately cause all commercials broadcast on Canadian television to be produced in this country. We believe there is significant potential in this field in Toronto, where production facilities of other companies are often strained and over-booked.

In conclusion

Your new management believes that Global has now overcome most of its major problems and is moving in a positive fashion to a cash break even and operating profits. Furthermore the cash and operating losses Global is experiencing at this particular time are well within our budget estimates. We believe your present management has accomplished much but there is still much more to do. I congratulate the 140-plus individuals at Global Television who have put much more into a job than any management could ever expect.

On behalf of your Board of Directors,

President.

January 29, 1975

Consolidated Statement of Operations and Deficit

GLOBAL COMMUNICATIONS LIMITED

	Year ended August 31 1974	1973
Revenue		
Air-time	$ 2,459,983	$ —
Other	456,844	—
	2,916,827	—
Expenses		
Programming, broadcasting and maintenance (including $2,901,444, to reduce film rights to estimated net realizable value ; 1973 – nil (Note 8))	13,781,522	329,059
Administration, marketing and occupancy	4,076,423	1,291,713
Depreciation and amortization	518,846	2,224
	18,376,791	1,622,996
Other expenses		
Interest		
Term bank loan and other	331,734	—
Debentures (including amortization of debenture discount of $19,406 ; 1973 – $32,344)	267,894	414,320
	599,628	414,320
Less interest earned	253,689	396,321
	345,939	17,999
Expenses to date of acquiring licence	—	448,382
	345,939	466,381
Total expenses	18,722,730	2,089,377
Loss before extraordinary items	15,805,903	2,089,377
Extraordinary items		
Gain on settlement of unsecured creditors' claims – net (Note 1b)	2,676,477	—
Less unamortized debenture discount at date of refinancing (Note 1a)	465,750	—
	2,210,727	—
Net loss for the year	13,595,176	2,089,377
Deficit at beginning of year	2,089,377	—
Deficit at end of year	$15,684,553	$ 2,089,377
Loss per share		
Before extraordinary items	$ 23.85	$ 4.43
Less extraordinary items	3.41	—
After extraordinary items	$ 20.44	$ 4.43

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets

GLOBAL COMMUNICATIONS LIMITED (Incorporated under the Canada Corporations Act)

ASSETS	Pro Forma 1974 (Note 2)	August 31 1974	1973
Current			
Cash	$ 8,958,867	$ —	$ 98,416
Cash held by trustee (Note 1b)	224,400	224,400	—
Term deposits	—	—	5,760,237
Funds held in trust to be released (Note 1a)	—	1,348,867	—
Accounts receivable	795,753	795,753	18,392
Due from lessor	—	—	3,371,153
Film and program rights (Note 8)	4,457,538	4,457,538	359,709
Sundry receivables, prepaids and other	193,520	193,520	32,090
	14,630,078	7,020,078	9,639,997
Fixed, at cost less accumulated depreciation (Notes 8 and 9)	9,074,758	9,074,758	912,515
Funds held in trust for payment of interest on convertible debentures (Note 1a)	—	—	1,513,676
Unamortized debenture discount (Note 1a)	—	—	485,156
	$23,704,836	$16,094,836	$12,551,344

On behalf of the Board

Allan Slaight, Director

Leslie Halpert, Director

 The accompanying notes are an integral part of these financial statements

LIABILITIES	Pro Forma 1974 (Note 2)	August 31 1974	1973
Current			
Bank indebtedness (Note 5)	$ 358,989	$ 358,989	$ —
Accounts payable and accrued liabilities including programming contract liabilities of $3,337,162	6,659,675	6,659,675	1,263,465
	7,018,664	7,018,664	1,263,465
Long-term			
Term bank loan (Note 5)	6,000,000	5,400,000	—
Instalments payable on programming contracts (Note 8)	3,363,415	3,363,415	—
1974 interest debentures due January 15, 1983 (Note 1a)	8,900,000	1,990,000	—
1974 income debentures due January 15, 1998 (Note 1a)	100,000	—	—
Subordinated promissory notes (Note 1b)	630,054	630,054	—
10% debentures due January 15, 1983 (Note 1a)	10,125,000	10,125,000	10,125,000
	29,118,469	21,508,469	10,125,000
	36,137,133	28,527,133	11,388,465
DEFICIENCY IN ASSETS			
Capital stock			
Authorized			
240,000 voting preferred shares par value 5¢ each (Note 1a)			
2,000,000 common shares, no par value			
Issued			
225,000 voting preferred shares (Note 1a)	11,250	11,250	11,250
665,000 common shares (Notes 1a, 3 and 4)	3,241,006	3,241,006	3,241,006
	3,252,256	3,252,256	3,252,256
Deficit	(15,684,553)	(15,684,553)	(2,089,377)
	(12,432,297)	(12,432,297)	1,162,879
	$23,704,836	$16,094,836	$12,551,344

Consolidated Statement of Changes in Financial Position

GLOBAL COMMUNICATIONS LIMITED

	Pro Forma 1974 (Note 2)	Year ended August 31 1974	1973
Source			
Term bank loan (Note 5)		$ 5,400,000	$ —
Issue of 1974 interest debentures (Note 1a)		1,990,000	—
Long-term programming contracts		3,363,415	—
Promissory notes issued in lieu of current debt (Note 1b)		630,054	—
Extraordinary item			
Gain on settlement of unsecured creditors' debts – net (Note 1b)		2,676,477	—
Issue of 10% debentures and preferred shares – net		—	7,796,250
Issue of common shares		—	2,820,000
Funds held in trust to be released (Note 1a)		1,348,867	—
		15,408,813	10,616,250
Application			
To operations			
Loss before extraordinary items		15,805,903	2,089,377
Less non-cash items			
Depreciation and amortization		518,846	2,224
Debenture interest paid out of trust fund – net (including amortization of debenture discount of $19,406 ; 1973 – $32,344)		184,134	341,168
Expenses to date of acquiring licence		—	448,382
		15,102,923	1,297,603
Purchase of fixed assets		8,681,008	884,089
Repayment of advances to shareholder		—	46,940
		23,783,931	2,228,632
(Decrease) increase in working capital		(8,375,118)	8,387,618
Working capital (deficiency) at beginning of year		8,376,532	(11,086)
Working capital at end of year		$ 1,414	$ 8,376,532
Represented by			
Current assets	$14,630,078	$ 7,020,078	$ 9,639,997
Current liabilities	7,018,664	7,018,664	1,263,465
	$ 7,611,414	$ 1,414	$ 8,376,532

The accompanying notes are an integral part of these financial statements.

Auditors' Report

The Shareholders,
Global Communications Limited.

We have examined the consolidated balance sheet and the pro forma consolidated balance sheet of Global Communications Limited and its subsidiaries as at August 31, 1974 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

The Company has sustained substantial losses to date and during the year ended August 31, 1974 the Company experienced difficulty in meeting its obligations. As set out in Note 1, a refinancing plan proposed by an outside group was agreed to by the debentureholders, shareholders and creditors whereby, among other things, funds were made available to the Company. The future of the Company will depend upon its ability to attain profitable operations and to generate sufficient cash flow to meet its obligations.

In our opinion, subject to the foregoing:

1. the accompanying consolidated balance sheet, consolidated statements of operations and deficit and changes in financial position present fairly the financial position of the companies as at August 31, 1974 and the results of their operations and the changes in their financial position for the year then ended,

2. the accompanying pro forma consolidated balance sheet presents fairly the financial position of the companies as at August 31, 1974 after giving effect to the transactions described in Note 2,

all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.,
Chartered Accountants.

Toronto, Ontario,
January 10, 1975.

Notes to Consolidated Financial Statements

August 31, 1974

1. Reorganization and refinancing

A refinancing plan proposed by an outside Group (the "Group"), the two principal members being IWC Communications Limited ("IWC") and Global Ventures Western Ltd. ("Ventures"), was approved by the Canadian Radio-Television Commission on April 11, 1974 and ratified by the debentureholders and shareholders of the Company on June 10, 1974. A proposal under the Bankruptcy Act to the unsecured creditors of the parent Company was approved by them on June 7, 1974 and ratified by the Court on June 25, 1974.

a. Refinancing plan

The following is a summary of the major aspects of the refinancing plan:

i. The Group agreed to cause the Company's bankers to grant from time to time the unextended term line of credit of approximately $3,000,000 which would bring the total authorized term loan to $6,000,000 with a guarantee of repayment to the bankers by the two principal members of the Group in the amount of $1,500,000 each for said increase of $3,000,000 (Note 5). In addition, two parties associated with Ventures have guaranteed the $1,500,000 also guaranteed by Ventures. The unextended line of credit under the term loan as at August 31, 1974 was $600,000 in addition to an unextended line of credit of $1,000,000 on the operating loan.

ii. IWC was granted full management control under a management contract expiring on January 15, 1983 at an initial annual fee of $175,000 reviewable annually.

iii. The Group was granted an option expiring on January 15, 1983 to purchase 14,000 common shares from the treasury of the Company for $7 each and further options to purchase from the existing shareholders 626,000 of the issued 665,000 common shares held by them. The shareholders also entered into a new Voting Trust and Option Agreement so that, among other things, all voting rights attached to outstanding shares optioned to the Group are held exercisable by the Group until January 15, 1983 (Note 3).

iv. The previously existing 1,125,000 voting preferred shares of the par value of 1¢ each carrying one vote per share were consolidated on a 1 for 5 basis into 225,000 voting preferred shares of the par value of 5¢ each carrying one vote per share. At such time as the 10% debentures (Note 1a) are discharged or redeemed in full by the Company, the voting preferred shares to which such debentures are related shall be purchased for cancellation at par by the Company.

v. The Group agreed to purchase from the Company, at par, up to $8,900,000 principal amount of debentures (the "1974 interest debentures") of which $1,990,000 were purchased prior to August 31, 1974 ($5,900,000 as of January 10, 1975). The remaining $3,000,000 are to be purchased as and when required by the Company and by the date or dates to be agreed to by the bankers. The terms of such debentures are:

* Due January 15, 1983 but permit prepayment in whole or in part at any time without premium.
* Secured by a floating charge on all the assets of the Company, subject only to security held by the Company's bankers and the claims of certain trade creditors for liabilities incurred from May 22, 1974 until May 22, 1977 ("new trade indebtedness"), and ranking pari passu with $1,305,000 principal amount of the outstanding 10% debentures.
* Bearing interest at the prime bank commercial rate plus 1.2%.

vi. The Group agreed to purchase from the Company, subsequent to the purchase of $4,500,000 of 1974 interest debentures (Note 1a), at par, $100,000 principal amount of debentures (the "1974 income debentures" all of which had been purchased as of January 10, 1975) with the following terms:

* Due January 15, 1998.
* Secured by a floating charge on all the assets of the Company, subject only to security held by the Company's bankers, the floating charge securing the 1974 interest debentures (including $1,305,000 principal amount of 10% debentures (Note 1a) ranking pari passu therewith) and the claims of new trade indebtedness.
* Bearing interest payable out of tax paid earnings at a rate equal to percentages declining one percentage point per annum from 30% in 1975 to 20% in 1985 and thereafter, of the pretax earnings of the Company for each immediately preceding fiscal period.

vii. The previously existing 6% convertible subordinated debentures (now 10% debentures) were amended as follows:

* The conversion rights attached to each debenture were deleted and are to be replaced by a purchase warrant for one common share of the Company at $7 per share, exercisable to January 1, 1983.
* The 10% debentures were expressly subordinated to the 1974 interest debentures, the 1974 income debentures and the claims of new trade indebtedness except

for $1,305,000 principal amount ranking pari passu with the 1974 interest and income debentures.

* All interest on the 10% debentures from January 15, 1974 to January 15, 1977 was forgiven but effective January 15, 1977 to maturity on January 15, 1983 interest will apply at the rate of 10% per annum.
* The trust fund for interest as at January 15, 1974 was approved for release to the Company for its general use.

viii. Seymour Epstein, a director and a member of the Group, was granted an option exercisable on or before August 31, 1975 to purchase, at par, $1,000,000 principal amount of additional 1974 interest debentures of the Company. Ten percent of the common shares under option to the Group (Note 1a) and of the 1974 income debentures (Note 1a) are allocable to Mr. Epstein for a consideration of $10,000. If Mr. Epstein fails to exercise his option to purchase all or substantial portions of such additional 1974 interest debentures by August 31, 1975, his 10% interest in the aforementioned options and 1974 income debentures is subject to be cancelled or reduced in favour of the other members of the Group.

b. Proposal to unsecured creditors

Under the proposal:

i. Secured and preferred creditors were to be paid in accordance with their arrangements with the Company.

ii. All fees and expenses of the trustee and legal fees were payable in cash in priority to all creditor claims.

iii. The unsecured creditors were obligated to elect within 20 days of the approval of the Proposal by the Court on June 25, 1974 to receive in full and final satisfaction of their claims as follows:

either 1. 25¢ on the dollar of their claims payable by the Company;

or 2. Subordinated instalment promissory notes to be issued by the Company for 100¢ on the dollar of their claims.

Any unsecured creditor who did not make an election is deemed to have elected to receive a note. As at August 31, 1974 the Company was obligated to issue $630,054 of such notes. Such notes had not been formally issued at January 10, 1975.

These subordinated notes bear no interest; are due and payable in five equal annual instalments commencing on January 15, 1979; are unsecured and subordinated to all monies borrowed and trade indebtedness incurred by the Company after the date of the Proposal on May 22, 1974. If any payments are made by the Company on account of its 1974 income debentures (Note 1a), an amount equal to such payments shall be paid by the Company pro rata to the holders of the aforementioned subordinated notes by way of prepayments on such notes to be applied in reduction of instalments due in reverse order of maturity. The Company shall not pay any dividends on its outstanding shares until all the notes have been paid or discharged.

2. Pro forma consolidated balance sheet

The pro forma consolidated balance sheet gives effect to the receipt of the following funds available under the refinancing plan:

a. The bank extending the additional $600,000 under the authorized term loan of $6,000,000.

b. The Group purchasing from the Company an additional $6,910,000 of 1974 interest debentures and the $100,000 of 1974 income debentures. (As of January 10, 1975 the Group had purchased an additional $3,910,000 of 1974 interest debentures and the $100,000 of 1974 income debentures).

c. The trust fund for interest on the 10% debentures of $1,348,867 including accrued interest at August 31, 1974, being released. (It was released on October 1, 1974).

3. Voting Trust and Option Agreement

The Group entered into a Voting Trust and Option Agreement with J. Allan Slaight and Paul Morton and others dated May 27, 1974. By the Agreement such individuals (being the President of IWC and of Ventures respectively) agreed as new voting trustees to exercise all voting rights attaching to the outstanding common shares of the Company (which shares are held by Guaranty Trust Company of Canada as depository). The Voting Trust and Option Agreement is, in effect, in force until January 15, 1983. The 626,000 common shares optioned to the group by the present holders can be purchased at any time and in any number up to January 15, 1983 at the following amounts:

a. The first 240,000 shares at 50c each.
b. The next 100,000 shares at $1.00 each.
c. The next 100,000 shares at $2.50 each.
d. The remaining 186,000 shares at $7.00 each.

The 14,000 common shares optioned to the Group from treasury may be purchased at any time and in any number from January 15, 1975 to January 15, 1983 at $7.00 each.

595,000 of the issued common shares which are subject to the aforementioned option are also held in escrow by the Guaranty Trust Company of Canada and may not be released except upon the prior written consents of the Alberta, Ontario and Quebec Securities Commissions.

None of these options has been exercised as at January 10, 1975.

4. Options and warrants

The Company has reserved 239,000 shares for issuance under existing share options and warrants as follows:

a. To the Group (Note 1a), options for 14,000 common shares at $7.00 per share.

b. To the 10% debentureholders, 225,000 warrants for the purchase of common shares at $7.00 each.

5. Banking

Under the terms of its banking agreement, the Company has available up to $6,000,000 by way of a term loan, repayable as set out below and maturing August 31, 1979 as well as $1,000,000 by way of an operating loan reviewable annually. The security for these loans is a term debenture in the amount of $6,000,000 and an operating credit debenture in the amount of $10,000,000, each creating a fixed and floating charge on all assets acquired or to be acquired by the Company, and in respect of the operating loan is also a registered general assignment of the book debts of the Company. Two principal members of the Group (Note 1a) have guaranteed up to $1,500,000 each of the outstanding term loan after the first $3,000,000 of advances. In addition, two parties associated with Ventures have guaranteed the

$1,500,000 also guaranteed by Ventures. For such guarantees the Company has agreed to pay the guarantors (other than Ventures) 1% per annum of such outstanding guarantees. The term loan (of which $5,400,000 had been advanced to August 31, 1974) is to be repaid as follows under the original arrangements dated January 15, 1973:

a. Commencing on February 29, 1976 and ending on May 31, 1979, the Company shall make quarterly principal repayments calculated on the basis that total annual payments shall be 60% of the net operating cash flow as defined in excess of $400,000.

b. The interest rate will generally be 1½% above the prime rate of the Company's bankers to August 31, 1977 and thereafter 2% in excess of the prime rate.

c. The unpaid principal shall be paid in full on August 31, 1979.

The operating loan (which was not in use as at August 31, 1974) bears interest at ½% above the prime rate of the Company's bankers and is reviewable annually.

6. Lease

The Company's head office, network control centre and production facilities in Metropolitan Toronto, Ontario have been leased on a net basis for a period of twenty-five years expiring December 31, 1998 (with options to renew for two successive five-year periods) at an annual rental of $480,000. The annual rental is to be adjusted by 50% of the cost of living index change in the tenth and the twentieth year of the lease.

7. Purchase commitments

The Company has entered or is authorized to enter into a number of contracts to acquire fixed assets in the amount of approximately $440,000.

8. Accounting policies

a. The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

b. The Company has entered into various contracts to acquire programming and film rights. The liabilities for these rights are reflected in the balance sheet when the contracts are signed and the costs incurred under these contracts are recorded as assets and amortized according to their expected broadcast use commencing on the date of broadcasting. Programmes and pilots are written off when they are deemed to be of no value. Certain film rights existing at the time of the refinancing have been written down to estimated net realizable value.

c. The Company has adopted a policy to depreciate its plant and equipment on a straight-line basis from the date of acquisition as follows:

Land improvements	5%
Buildings	10%
Transmitter, studio and technical equipment	7½% to 12½%
Vehicles	20%
Furniture and fixtures	10%
Leasehold improvements	4%

9. Fixed assets

Fixed assets consist of:

	1974	1973
Cost		
Land	$ 143,446	$134,340
Land improvements	59,833	46,250
Buildings	595,959	—
Transmitter, studio and technical equipment	7,362,086	689,665
Vehicles	20,862	—
Furniture and fixtures	336,669	44,484
Leasehold improvements	1,076,893	—
	9,595,748	914,739
Accumulated depreciation and amortization	520,990	2,224
Net book value	$9,074,758	$912,515

10. Income taxes

The Company has income tax loss carry overs from 1974 of approximately $12,800,000 which are available to be carried forward for income tax purposes to be applied against such income as may be earned by it in years up to 1979. In addition, the Company has charged $3,000,000 of expenses against operations (primarily capital cost allowances) which are being deferred for income tax purposes. No recognition of these potential future tax savings has been given in these financial statements.

11. Liens

As at August 31, 1974, liens were registered by suppliers against the Company for non-payment of fixed assets purchased. The amounts due under these liens were paid in full subsequent to August 31, 1974, except for a minor amount being paid in monthly instalments.

12. Remuneration and number of directors and officers

	1974		1973	
	Number	$	Number	$
During the year				
Directors	26	nil	11	nil
Officers	12	106,397	8	101,371
As at August 31				
Directors	11		11	
Officers	5		5	
Number of officers who were also directors during the year	7		4	

The above does not include amounts which were paid or payable to corporate entities under management contracts for services of existing officers and directors for an aggregate consideration of $107,308 and former officers and directors for an aggregate consideration of $393,955.

13. Restatement of prior year's figures

The 1973 comparative figures have been reclassified to conform to the 1974 presentation.

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